

STATE OF MONTANA COMPLIANCE SUPPLEMENT FOR AUDITS OF LOCAL GOVERNMENT ENTITIES	REF: SD-4
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PROGRAM/SUBJECT: School Districts - Expenditures	

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COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:

(Note to Auditor: We strongly recommend that, as part of expenditure testing, the auditor review the redeemed warrants of the school district at the County offices. The redeemed warrants are typically maintained in the Clerk and Recorder's office. Several embezzlements have been detected when auditors discovered that the name on the redeemed warrant did not match the duplicate warrant and accounting records maintained by the school district.)

CLAIMS APPROVAL

1. Compliance Requirement:

- The expenditure of district moneys, other than employee contract payments, may be authorized by the trustees when:
 - a. payee-signed claims, wherein the payee attests to the accuracy of the claim and that he has not received the claimed amount, have been issued to the district; or
 - b. the payee has provided the district with an invoice or other document identifying the quantity and total cost per item included on the invoice.

(MCA 20-9-207 and 20-9-213(2))

(Note: Documentation might include invoices or itemized billing statements, receiving reports, etc.)

Suggested Audit Procedure:

- As part of expenditure testing, verify that the expenditure of district money was authorized as described above.

WARRANTS SIGNED

2. Compliance Requirement:

- The district's warrants must be countersigned by the presiding officer of the trustees and the clerk of the district before the warrants are negotiable. (MCA 20-9-221(1) & (2), and 20-9-213)

Suggested Audit Procedure:

- As part of expenditure testing, determine that the warrants are signed by the presiding officer of the trustees and the clerk of the district.

3. Compliance Requirement:

- Warrants may be signed by a facsimile signature device. If such a device is used, it may not be available to the other countersigner of the warrant, or the device must have a nonresettable metering control that can provide a positive reconciliation between the number of warrants issued and the number of signatures applied. Either split signature plates or a double signature plate may be used according to the

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COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:

WARRANTS SIGNED - continued

3. Compliance Requirement - continued:

requirements of the district. The signature plates and device keys must be kept secure by the district clerk under the supervision of the board of trustees. (MCA 20-9-221(2))

Suggested Audit Procedures:

- Determine whether the district uses facsimile signatures to sign district warrants.
- If so, determine whether the district performs reconciliations between the number of warrants issued and the number of signatures produced by the facsimile signature device.
- Determine if the signature plates and device keys are kept in a secure area by the district clerk.

WARRANTS ISSUED

4. Compliance Requirement:

- Goods or services must be received prior to the issuance of warrants. (A.G.O. No. 27, Vol. 30)

(Note: School districts will occasionally approve claims or purchase orders and prepare the warrants prior to receiving the goods or services in order to obligate the remaining budget. This practice should be discouraged. School districts may, however, legally encumber funds as permitted by Montana statutes – See Compliance Requirement No. 10, below.)

Suggested Audit Procedure:

- As part of expenditure testing, verify that goods and services were received before a warrant was issued.

5. Compliance Requirement:

- The trustees may issue warrants in multiple copies. If multiple copies are issued, the copies must be identified on the face of the warrant as "Not Negotiable - Copy of Original." (MCA 20-9-221(3))

Suggested Audit Procedure:

- Determine if the trustees issue warrants in multiple copies. If so, verify that the copies are identified on the face of the warrant as "Not Negotiable - Copy of Original."

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COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:

EXPENDITURE LIMITATIONS

6. Compliance Requirements:

- The trustees and all officers and employees of the district are limited in making expenditures or incurring liabilities to the total amount of each fund's budget. That is to say, money of the district may not be used to pay expenditures made, liabilities incurred, or warrants issued in excess of the final budget established for each budgeted fund. The only exception is if a district incurs a legal bonded debt payment after the final debt service fund budget for the current fiscal year has been adopted and if payment on the debt is required for the current fiscal year, payment on the debt in the current school fiscal year is allowed if money is available. (MCA 20-9-133 and 20-9-213(3))
- The expenditure limitation at any time during the school fiscal year for a nonbudgeted fund is the amount of cash balance of the nonbudgeted fund. (MCA 20-9-210)
- Transactions recorded to correct expenditures reported in a prior year shall be charged against the current year's budget as provided in MCA 20-9-209(2). (ARM 10.10.307)

Suggested Audit Procedure:

- As part of expenditure testing, determine that expenditure limitations for budgeted and nonbudgeted funds did not exceed the limitations as described above.

TRAVEL EXPENSES

7. Compliance Requirements:

- School district officials and employees should be reimbursed for actual mileage traveled in accordance with the provisions of MCA 2-18-503. When a privately owned vehicle is used on school district business, a mileage rate equal to the mileage allotment allowed by the United States Internal Revenue Service (IRS) for the current year shall be paid for the first 1,000 miles traveled in a given calendar month. Any miles traveled thereafter within the same month are reimbursed at 3 cents per mile less. If an airplane is used, reimbursement is allowed for nautical air miles traveled at a rate of twice the automobile mileage allotment. (MCA 2-18-503)
- Reimbursement rates and policies for meal and lodging expenses while traveling on official school district business should be in accordance with a policy formally adopted by the board of trustees.

(Note: Every person engaged in travel shall periodically submit a claim containing a schedule of expenses and amounts claimed for said period. Said schedule shall show in what capacity such person was engaged each day while away from the department in

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COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:

TRAVEL EXPENSES – continued

7. Compliance Requirements - continued:

which said daily duties arose and shall show expense items of each day in detail, such as the amount of per diem allowance claimed, transportation fare, mileage, and other such items. (MCA 2-18-511))

Suggested Audit Procedure:

- As part of expenditure testing, test travel claims to determine that any mileage reimbursement rates paid comply with the provisions of MCA 2-18-503, and that reimbursements for meals and lodging are in accordance with the school district's official policy, and that the travel claims are adequately documented.

OUTSTANDING & DUPLICATE WARRANTS

8. Compliance Requirements:

- Warrants that are outstanding for more than one year may be canceled by the trustees of the school district. (MCA 20-9-223)
- The contractual obligation of the district that has been satisfied by the issuance of the warrant shall not be terminated until the time specified by MCA 27-2-202(1), which is 8 years. (MCA 20-9-223)
- When a warrant has been canceled and the contractual obligation (as discussed above) has not terminated, the district may issue a duplicate warrant without the completion of an indemnity bond by the payee. (MCA 20-9-223)

Suggested Audit Procedures:

- Determine, through a review of the minutes of the Board or by other means, whether any warrants were cancelled during the audit period. If so, verify that the warrants that were cancelled had been outstanding for one year or longer. Ensure that the District has maintained a record of these cancelled warrants, to support the 8-year contractual obligation.
- If there is an indication that a duplicate warrant was issued during the audit period, determine that the reason for the duplicate warrant has been documented, and that the warrant is marked “duplicate”.

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COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:

REGISTERED WARRANTS

9. Compliance Requirement:

- School district warrants drawn on budgeted funds are required by MCA 20-9-212(8) to be registered only if there is insufficient money in all funds of the district. From the date of presentation and thereafter the warrant bears interest at a rate fixed by the board of trustees in accordance with law. (MCA 20-9-212(8) and 7-6-2604)

Suggested Audit Procedure:

- If registered warrants were issued during the audit period, determine that they were issued only when there was insufficient money available in all funds of the district to pay the warrants.

ENCUMBRANCES

10. Compliance Requirements:

- All appropriations for a budgeted fund lapse on the last day of the school fiscal year except the appropriations for:
 - a. uncompleted improvements in progress of construction; and
 - b. an obligation for the purchase of personal property ordered but not paid for during the current fiscal year. (MCA 20-9-209(1))
- The district may encumber current year appropriations for valid obligations existing as of June 30th. Criteria for determining whether a valid obligation exists are as follows:
 - a. The cost of personal property, including materials, supplies and equipment, ordered but not received may be encumbered if a valid purchase order for the items was issued prior to June 30th.
 - b. The cost of commitments related to construction in progress may be encumbered if a legally binding contract was signed and effective or a valid purchase order was issued prior to June 30th. (If performance under the contract is complete, or virtually complete, the cost of the entire contract should be accrued as an expenditure, rather than being encumbered.)
(ARM 10.10.101)
- **Encumbrances do not meet the definition of an expenditure or a liability for GAAP purposes.** Because the trustees' financial summary (TFS) is prepared on the budgetary basis of accounting (not GAAP), the school district must add encumbrances outstanding at year end to current year expenditures to arrive at the budgetary basis expenditures reported on the TFS. (ARM 10.10.101) Encumbrances should be reported in the Governmental Fund Financial Statements as "fund balance

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COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:

ENCUMBRANCES - continued

10. Compliance Requirements - continued:

reserved for encumbrances” on the balance sheet. This reservation of fund balance is not reported on the Statement of Net Assets as a restricted net asset.

Note to auditor: To assist the school district in preparing a GAAP operating statement, the following calculation must be made:

Budget basis expenditures per TFS (by function)
 + Encumbrances outstanding at prior fiscal year-end (by function)
 – Encumbrances outstanding at current fiscal year-end (by function)
 = GAAP basis expenditures (by function)

(Note: Encumbrances are not normally recorded in non-budgeted funds, since the non-budgeted funds do not, by definition, have a formally adopted budget that lapses at year-end. However, OPI allows encumbrances to be reported for obligations for grant funding on an award which lapses on a certain date.)

Suggested Audit Procedures:

- Obtain the district’s listing of encumbrances. Verify that all encumbrances on this listing meet the criteria for a valid obligation and that all are supported by a valid purchase order. **(Note to auditor: Districts may confuse encumbrances and accounts payable. Accounts payable should be represented by a vendor’s invoice documenting that the goods or services have been received/performed.)**
- Determine that all encumbrances are recorded as expenditures on the TFS.
- Determine that the amount of encumbrances recorded as expenditures on the TFS correspond to the amount reported as “Fund Balance - Reserve for Encumbrances” on the TFS.

EXPENDITURE CODING

11. Compliance Requirement:

- School districts are required to use the standard Chart of Accounts established by OPI. (ARM 10.10.406) Expenditure coding errors can affect many aspects of school funding. Of particular concern to OPI is special education expenditure coding.

Suggested Audit Procedure:

- As part of expenditure testing, verify that expenditure coding follows OPI’s standard Chart of Accounts. Please pay special attention to special education expenditures, which should be coded using program code 280. If expenditures are being incorrectly coded by a district, OPI asks that the situation be reported in an audit finding.

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COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:

COST ALLOCATIONS BETWEEN FUNDS/DISTRICTS

12. Compliance Requirements:

- In the event certain shared costs, such as administrative costs, curriculum coordinator salaries, school psychologist salaries, etc., cannot reasonably be identified directly to either the elementary district or the high school district or between funds within a district, the school district administration shall prepare a cost allocation plan for approval by the board of trustees prior to adoption of the final budget. The cost allocation plan should reasonably distribute such costs between districts and funds within a district, consistently from year to year. Shared costs shall be budgeted and accounted for in accordance with the cost allocation plan approved by the board of trustees. (ARM 10.10.303(1))
- The following allocation bases shall be used to allocate shared costs:
 - (a) ANB or enrollment per district;
 - (b) full time equivalent (FTE) staff per district;
 - (c) FTE teaching staff per district;
 - (d) floor space occupied or space occupied over time per district;
 - (e) miles driven, student miles driven, driver hours per district;
 - (f) students served per district;
 - (g) taxable valuation per district; or
 - (h) time spent providing services.
 (ARM 10.10.303(2))
- The cost of operating a junior high school must be prorated between the elementary district and the high school district on the basis of the ratio that the number of pupils of their district is to the total enrollment of the junior high school. (ARM 10.10.304; MCA 20-6-506)
- Whenever a joint board of trustees employs a person as the district superintendent, the districts shall prorate the compensation provided by the contract of employment on the basis of the number of teachers employed by each district. (ARM 10.10.303(4); MCA 20-4-401)

Suggested Auditing Procedure:

- If costs have been allocated between districts or funds, review the district's cost allocation plan and verify that it employs allowable allocation bases (see above), that it appears to be reasonable, and that its application is consistent with prior years.

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COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:

BIDDING REQUIREMENTS AND ADVERTISEMENT FOR BIDS

13. Compliance Requirements:

- Whenever any building, furnishing, repairing, or other work for the benefit of the district or purchasing of supplies for the district is necessary, and if the sum exceeds \$25,000 (**Effective March 30, 2007 - \$50,000**), the work done or the purchase made must be made by contract. Each contract must be let to the lowest responsible bidder after advertisement for bids, except that any or all bids may be rejected. The advertisement must be published in the newspaper that will give notice to the largest number of people of the district as determined by the trustees. The advertisement must be made once each week for 2 consecutive weeks, and the second publication must be made not less than 5 days or more than 12 days before consideration of bids. (MCA 20-9-204(3))
- The following are the exceptions to the bidding requirements:
 1. An unforeseen emergency as defined in MCA 20-3-322(5);
 2. Services performed for the benefit of the district by:
 - a. a registered professional engineer, surveyor, real estate appraiser, or registered architect (**Note:** See Compliance Requirement No. 22 below for bidding requirements for architectural services);
 - b. a physician, dentist, pharmacist, or other medical, dental, or health care provider;
 - c. an attorney;
 - d. a consulting actuary;
 - e. a private investigator licensed by any jurisdiction;
 - f. a claims adjuster;
 - g. an accountant licensed under Title 37, chapter 50 (i.e. certified public accountants); or
 - h. a project for which a school district enters into an alternative project delivery contract pursuant to Title 18, chapter 2, part 5 (MCA 20-9-204(3))
 3. The solicitation or award of a contract for an investment grade energy audit or an energy performance contract pursuant to Title 90, chapter 4, part 11, including construction and installation of conservation measures pursuant to the energy performance contract.
 4. Employer-provided employee health insurance plans (A.G.O No. 37, Vol. 40);
 5. Purchase of a school bus as provided in MCA 20-10-110.
- A district may enter into a cooperative purchasing contract for the procurement of supplies or services with one or more districts. The award of a contract to a successful bidder must be let to the lowest responsible bidder after advertisement for bids, except that any or all bids may be rejected. The request for bids must be advertised in a daily newspaper of general circulation in each county in which a

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COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:

BIDDING REQUIREMENTS AND ADVERTISEMENT FOR BIDS - continued

13. Compliance Requirements - continued:

district participating in the cooperative purchasing contract is located. The advertisement must be made once each week for 2 consecutive weeks, and the second publication must be made not less than 5 days or more than 12 days before consideration of bids. (MCA 20-9-204(4))

Suggested Audit Procedures:

- Review the minutes of the board of trustees' meetings, and the requests for bids and bidding files for selected projects/purchases to determine that proper bidding procedures were followed as described above.
- As part of expenditure testing, determine that purchases in excess of \$25,000 **(\$50,000 as of March 30, 2007)** were made by contract awarded to the lowest responsible bidder after advertisement for bids (unless any of the exceptions noted above apply).

BIDDING – LEASE/PURCHASE AGREEMENTS

14. Compliance Requirements:

- The trustees of a district may acquire real and personal property by an agreement to lease for 3 years with an option to purchase. The terms of the lease must comply with MCA 20-6-625 ("Authorization to lease buildings or land for school purposes"). If real property is acquired, the trustees shall comply with MCA 20-6-603 ("Trustees' authority to acquire or dispose of sites and buildings – when election required"). (MCA 20-6-609)
- A lease contract with a purchase option is subject to bidding requirements if the total amount of the lease payments, together with the purchase option price, exceeds the statutory dollar threshold for bidding (in this case, \$25,000 **[\$50,000 as of March 30, 2007]**). (AGO No. 101, Volume 38) (**Note:** Although this AGO, pertaining to a county lease contract, does not specifically mention school districts, it appears that the same would apply to school lease purchase agreements.)

Suggested Audit Procedure:

- Review any lease/purchase contracts and determine the total amount of the lease payments and the purchase option price. If the sum of these amounts exceeds the limits for which competitive bidding is required (see above), verify that the lease/purchase agreement was subject to the applicable competitive bidding requirements.

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COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:

DIVIDING PROJECTS TO CIRCUMVENT BIDDING REQUIREMENTS

15. Compliance Requirement:

- Whenever any law of this state provides a limitation upon the amount of money that a school district can expend upon any public work or construction project without letting such public work or construction project to contract under competitive bidding procedures, a school district shall not circumvent such provision by dividing a public work or construction project or quantum of work to be performed there under which by its nature or character is integral to such public work or construction project, or serves to accomplish one of the basic purposes or functions thereof, into several contracts, separate work orders, or by any similar device. (MCA 20-9-205)

(**Note:** The above shall apply not only where the public work or construction project is divided into several projects which are constructed at approximately the same period of time but also where the public work or construction project is divided into several projects which are constructed in different time periods or over an extended period of time. (MCA 20-9-205))

Suggested Audit Procedure:

- Determine, through expenditure testing and a review of the minutes of the trustees' meetings, that no contract was divided into several parts to circumvent the competitive bidding requirements.

BID SECURITY DEPOSIT

16. Compliance Requirements:

- All bids for public contracts must include a bid security of not less than 10%. (MCA 18-1-202(2))
- The bid security deposit must be in the form of cash; cashier's check, certified check, bank money order, or bank draft drawn and issued by a federally chartered or state-chartered bank insured by the federal deposit insurance corporation; or a bid bond, guaranty bond, or surety bond executed by a surety corporation authorized to do business in Montana. (MCA 18-1-201 through 18-1-203)

Suggested Audit Procedure:

- Review the minutes of governing body meetings, and the requests for bids and bidding files of selected projects and verify that a bid security deposit, in some form, accompanied all bids, and that a minimum bid security deposit of 10% was received when required by statute.

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COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:

AWARDING PUBLIC CONTRACTS

17. Compliance Requirements:

- Any letting of contracts related to the construction or furnishing of a new, enlarged, remodeled, or repaired building must be conducted under the provisions of 20-9-204 (or Title 18, Chapter 2, Part 5, MCA. (See Compliance Requirement #13, above). (MCA 20-6-606)
- Each contract must be let to the lowest responsible bidder after advertisement for bids, except that the trustees may reject any bids. (MCA 20-9-204(3) and (4))
- Public contracts for construction, repair, or public works must be awarded to the lowest responsible bidder without regard to residency. However, a resident bidder must be allowed a preference on a contract against the bid of any nonresident bidder from any state or country that enforces a preference for resident bidders. The preference given to resident bidders of this state must be equal to the preference given in the other state or country. (MCA 18-1-102)
- A public contract for the purchase of goods must be let to the lowest responsible bidder without regard to residency. However, a resident must be allowed a preference on a contract against the bid of a nonresident if the state or country of the nonresident enforces a preference for residents. The preference must be equal to the preference given in the other state or country. (MCA 18-1-102)

(Note: *The Common Rule* (Section _36(c)(2)) prohibits the use of statutorily or administratively imposed in-state or local geographical preferences in the evaluation of bids or proposals for federally-funded contracts, except in those cases where applicable federal statutes expressly mandate or encourage geographic preference.)

[Government-wide guidance for administering grants and cooperative agreements to States, local governments, and Indian tribal governments is contained in the A-102 Common Rule, which was codified by each Federal funding agency in its title of the *Code of Federal Regulations*. The A-102 Common Rule section numbers are referred to without the Federal agency's part number (e.g., §_36 would refer to the same section in all agency regulations). This allows auditors to refer to the same section numbers when discussing administrative issues with different Federal funding agencies. The Codification of Government-wide Grants Requirements by Department can be accessed via this web site:

<http://www.whitehouse.gov/omb/grants/chart.html>]

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COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:

AWARDING PUBLIC CONTRACTS - continued

Suggested Audit Procedures:

- Review the minutes of governing body meetings, and the requests for bids and bidding files of selected projects.
1. Determine if residency preference was allowed in the awarding of the contract on any project or for the purchase of goods. If allowed, verify that the preference met the provisions of MCA 18-1-102. If the selected projects were federally-funded, verify that any residency preference was permitted by relevant federal statutes.
 2. Verify that each contract awarded was let to the lowest responsible bidder after advertisement for bids. If not, verify that the trustees documented why the lowest was rejected as provided for above.

INSTALLMENT CONTRACTS – SCHOOL BUS PURCHASES

18. Compliance Requirement:

- When a district purchases a school bus, the trustees may purchase such school bus under an installment contract which will be completely executed within 3 years from the date of the purchase. (**Note:** The trustees also may purchase a school bus without advertising for bids under the provisions of 20-9-204.) (MCA 20-10-110)

Suggested Audit Procedure:

- Review contract documents for installment purchases to determine that the installment period does not exceed 3 years.

CONFLICT OF INTEREST

19. Compliance Requirements:

- No trustee may have any pecuniary interest, either directly or indirectly, in any contract made by the trustee while acting in that official capacity or by the board of trustees of which the trustee is a member, nor may a trustee be employed in any capacity by the trustee's own school district. (MCA 20-9-204) (**Note:** "Pecuniary interest" does not include holding an interest of 10% or less in a corporation.)

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COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:

CONFLICT OF INTEREST - continued

19. Compliance Requirements - continued:

- The meaning of “contract”, as used above, does not include contracts for professional services, other than salaried services, or for maintenance or repair services, or supplies when the services or supplies are not reasonably available from other sources if the interest of any board member and a determination of the lack of availability are entered in the minutes of the board meeting at which the contract is considered. In addition, “contract” does not include merchandise sold to the highest bidder at public auctions, nor does it include investment or deposits in financial institutions when the investments or deposits are made on a rotating or ratable basis among financial institutions in the community or when there is only one financial institution in the community. (MCA 20-9-204)
- A district employee shall not act as an agent or solicitor in the sale or supply of goods or services to a district. No such person shall assist or receive a reward from an agent or solicitor of goods or services for a district. (MCA 20-1-201; 20-7-608)

Suggested Audit Procedures:

- Determine, through a review of the minutes of the board of trustees’ meetings and through expenditure testing, that no member of the board has any apparent improper interest in any contract entered into by the board of trustees.
- If there are indications that a board member may have a conflict of interest in regard to a contract, verify that the minutes include a discussion of this conflict and the determination of the lack of availability from other sources.

RETAINAGE FEE FOR PUBLIC CONTRACTS

20. Compliance Requirement:

- The maximum retainage (means the ratio, in percent, of funds retained to the total amount to be paid to the contractor by the government entity) applied to construction contracts may not exceed 5% if the contractor is performing by the terms of the contract. (MCA 18-2-316)

Suggested Audit Procedure:

- Review any construction contracts and determine through a review of the contracts, the minutes of the governing body, and an examination of expenditures, that the district did not withhold more than 5% of the contract amount or claim amount that the construction contractor submitted to the governing body for payment.

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COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:

RETAINAGE FEE FOR PUBLIC CONTRACTS - continued

21. Compliance Requirement:

- A government entity that enters into a contract for the construction of a building shall, unless otherwise provided by law or the contract and within 10 days after a request by the construction contractor for final acceptance, decide whether or not to make final acceptance. Within 30 days after final acceptance by the government entity, the government entity shall make the final payment of the contract price specified in the contract to the other party to the contract. ("Final acceptance" means the government entity's acceptance of the construction of a building by the contractor upon certification by the architect, project engineer, or other representative of the government entity of final completion of the building.) (MCA 18-2-306)

Suggested Audit Procedures:

- Review the construction files to determine that the district and the construction contractor complied with the above compliance requirement. The file should contain a copy of the request from the construction contractor for the district to make final acceptance on the construction contract, and a certification from the architect, project engineer, or other government representative of final completion of the building.
- Review the construction files and expenditures to determine whether the contract price was paid in full within 30 days after final acceptance by the government entity unless otherwise specified by law or the contract.

ARCHITECTURAL SERVICES

22. Compliance Requirement:

- Whenever the trustees of a school district determine that the building, furnishing, repairing or other work for the benefit of a school district exceeds \$150,000 and requires architectural services under Title 37, Chapter 65, MCA, the trustees of the school district shall contract for those services. (MCA 20-6-631)

Suggested Audit Procedures:

- Review the minutes of the trustees' meetings to determine if any building, furnishing, repair, or other work that cost in excess of \$150,000, and that required architectural services, was performed during the year.
- If these types of expenditures are noted, verify that the district entered into a contract for the required architectural services.

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COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:

TRANSPORTATION CONTRACTS

23. Compliance Requirements:

- Before any school bus transportation contract with a private party can be awarded, the trustees must publish three calls for bids for a period of 21 days. The contract must be let to the lowest responsible bidder, although the trustees shall have the right to reject any and all bids. (MCA 20-10-125)
- As an alternative, the trustees can negotiate a new contract with the current school bus contractor, provided that the negotiated contract costs do not exceed by more than 12% per year the basic costs of the previous year's contract. (**Note:** "12% of the basic costs of the previous year's contract" is subject to various interpretations – see below***) The negotiated contract may only be entered into at a public meeting. Notice of the meeting must be published at least one week prior to the meeting. (MCA 20-10-125)

Suggested Audit Procedures:

- Review the documented bidding procedures for transportation contracts to determine if three calls for bids were published.
- Determine that the contract was awarded to the lowest responsible bidder.
- If a contract is renegotiated, compare the cost of the previous year to the cost of the current year to ensure that it has not increased by more than 12%. ***If the renegotiated contract appears to have increased by more than 12%, inquire of school district personnel as to what were considered the basic costs of the previous year's contract. If necessary, contact the Office of Public Instruction for clarification.
- Review a copy of the minutes to determine if the negotiated contract was entered into at a public meeting, and review a copy of the published notice of meeting.

INDIRECT COST RATES

24. Compliance Requirement:

- A school district may charge indirect costs to federal and state grant awards only if it has requested an indirect cost rate for the fiscal year from OPI. Information and examples related to indirect cost rates and the application to OPI for the indirect cost rates can be found in the section titled "Indirect Cost Rate Application and Information" at OPI's website:
<http://www.opi.mt.gov/SchoolFinance/Acct2.html>

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COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:

INDIRECT COST RATES - continued

Suggested Audit Procedure:

- If the school district has charged indirect costs to any federal or state grants, verify that its indirect cost rate has been approved by OPI. Ensure that the district has adequate documentation for reclassifying an expenditure as indirect on the indirect cost rate application, and verify that the district applied the rate to actual expenditures, less capital outlay, incurred after the date of the rate's approval.

BUS DEPRECIATION RESERVE FUND

25. Compliance Requirement:

- Expenditures from the bus depreciation reserve fund may be made only:
 - a. to convert, remodel, or rebuild buses, or to replace the buses or radios, that are used for the purposes of transportation as defined in 20-10-101 (i.e., "home-to-school" transportation only) or for purposes of conveying pupils to and from school functions or extracurricular activities. These purposes would include both yellow school buses and over-the-road passenger coaches.
 - b. to purchase an additional bus for purposes of transportation, as defined in MCA 20-10-101. This would apply to only yellow school buses.

(MCA 20-10-147(3))

(Note: According to OPI interpretation, the purpose of the fund does not allow the purchase of non-bus vehicles, but does allow the purchase of surveillance cameras for buses.)

Suggested Audit Procedure:

- Review actual expenditures of the bus depreciation reserve fund to determine if amounts expended were only for the items noted above.

TECHNOLOGY ACQUISITION AND DEPRECIATION FUND

26. Compliance Requirements:

- The trustees of a district may establish a technology acquisition and depreciation fund for school district expenditures incurred and depreciation accrued for the purchase, rental, repair, maintenance and depreciation of technological equipment, including computers and computer network access; and associated technical training for school district personnel. (MCA 20-9-533)

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COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:

TECHNOLOGY ACQUISITION AND DEPRECIATION FUND - continued

26. Compliance Requirements - continued:

- The trustees of a district may not use revenue in the technology acquisition fund to finance contributions to the Teachers' Retirement System, the Public Employees' Retirement System, or the federal Social Security system, or for unemployment compensation insurance. (MCA 20-9-533)
- According to OPI interpretation, this fund may be used for the payment of salaries and benefits for staff who maintain computers, ensure software/equipment compatibility, facilitate access to the Internet and local networks, and train district staff in the use of computers/software. Payment of salaries and benefits for classroom teachers is not allowed. In addition, payments for software are allowable expenditures from this fund.

Suggested Audit Procedure:

- Verify that expenditures made from the Technology Acquisition and Depreciation Fund are made only for purposes allowed, as discussed above.

SCHOOL FLEXIBILITY FUND

27. Compliance Requirement:

- The trustees of a district shall establish a school flexibility fund and may use the fund, in their discretion, for school district expenditures incurred for:
 1. technological equipment enhancements and expansions considered by the trustees to support enhanced educational programs in the classroom;
 2. facility expansion and remodeling considered by the trustees to support the delivery of educational programs or the removal and replacement of obsolete facilities;
 3. supplies and materials considered by the trustees to support the delivery of enhanced educational programs;
 4. student assessment and evaluation;
 5. the development of curriculum materials;
 6. training for classroom staff considered by the trustees to support the delivery of enhanced educational programs;
 7. purchase, lease, or rental of real property that must be used to provide free or reduced price housing for classroom teachers;
 8. salaries, benefits, bonuses, and other incentives for the recruitment and retention of classroom teachers and other certified staff, subject to collective bargaining when applicable; or

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COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:

SCHOOL FLEXIBILITY FUND - continued

27. Compliance Requirement - continued:

9. increases in energy costs caused by an increase in energy rates from the rates paid by the district in fiscal year 2001 or from increased use of energy as a result of the expansion of facilities, equipment, or other resources of the district.
(MCA 20-9-543)

(Note: If the district's ANB calculated for the current fiscal year is less than the ANB for the current fiscal year when averaged with the 4 previous fiscal years, the district may use money from the school flexibility fund to phase in over a 5-year period the spending reductions necessary because of the reduction in ANB. (MCA 20-9-543))

Suggested Audit Procedure:

As discussed above, allowable expenditures of the Flexibility Fund are very broad. OPI does not encourage specific audit procedures related to expenditures of this fund.